

SAVINGS AND LOANS COOPERATIVES IN RURAL AREAS OF
DEVELOPING COUNTRIES: RECENT PERFORMANCE AND POTENTIAL

by

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INTRODUCTION

Savings and loans cooperatives, also known as Credit Unions, are a widespread form of financial organization throughout the world^{1/}. A credit union is "a cooperative financial organization owned and operated on a not-for-profit basis by its members according to democratic principles. Its purpose is to encourage savings, to use pooled funds to make loans, and to provide other related services to members and their families" (World Council of Credit Unions). There are about 88 thousand credit unions and similar cooperative financial institutions in the world. In 1986, their membership was almost 114 million, savings deposits reached 540 billion US dollars, and loans outstanding amounted to about 380 billion US dollars (see Appendix Table 1).

The main significance of the credit union movement relies upon its role in the provision or improvement of financial services to sectors of the population that otherwise would have limited or no access to these services. The number of credit unions in a well established network usually exceeds by far the number of bank branches in a given country. Furthermore, they

^{1/} Credit unions receive different names in different parts of the world. In francophone Africa they are called "Coopératives d'Epargne et de Crédit" (COOPECs, e.g., Togo), "Caisses Populaires" (e.g., Cameroon), or "Banques Populaires" (e.g., Rwanda). In Latinamerica credit unions are known as "Cooperativas de Ahorro y Crédito" (CACs, e.g., Honduras)

tend to develop primarily in rural areas, in sharp contrast with the urban bias characteristic of bank branching. In some cases, credit unions are created specifically to "mobilize rural savings", e.g., the "Banques Populaires" of Rwanda^{2/}.

In rural areas a credit union will typically develop in a village or locality where there is no easy access to institutional sources of financial services. Loans are obtained primarily from relatives or local money lenders, in the latter case usually at high interest rates. Savings opportunities, when they exist, are constrained to traditional forms of savings such as "ton-tines" or other collective groups, where membership may be limited to specific segments of the population. Under these conditions, the credit-union type of cooperative organization offers a feasible alternative for the development of institutional finance. The democratic structure, the operating principles governing service to members, and the social goals that characterize credit unions are likely to blend with and build upon the implicit principles of mutual trust and cooperation that exist in rural communities.

This paper relies upon data from four case studies to analyze some of the main indicators of credit-union performance and draw implications about their potential as an institutional basis for the development of rural financial systems. The cases reviewed here are Togo, Cameroon and Rwanda in Africa, and

^{2/} Bureau d'Orientation des Banques Populaires du Rwanda, Rapport Annuel, 1984.

Honduras in Latin America. The discussion presented below suggests that these cooperative organizations can be a dynamic form of financial institution, and are likely to substantially increase access to financial services in rural areas of low income countries.

The following section reviews three main indicators of credit union performance, namely growth of membership, growth of savings, and growth of loans outstanding. The final section of the paper discusses the implications of this recent performance in terms of development potential in rural areas.

RECENT PERFORMANCE OF CREDIT UNIONS IN SELECTED COUNTRIES

An overview of the performance of credit union movements in Togo, Cameroon, and Rwanda is presented in Appendix Tables 2, 3, and 4, respectively. The information available for Honduras does not correspond to the total credit union network in that country, therefore no comprehensive table could be presented for this case. The data used below in the cross-country comparisons that include Honduras correspond to a sample of 15 credit unions analyzed by Poyo (1985).

The three African cases considered here correspond to strong cooperative movements initiated in the mid-sixties (Cameroon and Togo)^{3/}, and mid-seventies (Rwanda)^{4/}. Membership growth has

^{3/} Mahon (1986).

^{4/} Bureau d'Orientation des Banques Populaires du Rwanda.

been substantial in these three cases during the last decade. As shown in Table 1, credit-union membership grew at an annual average rate of 14 percent in Togo, 6 percent in Cameroon, and 47 percent in Rwanda. These are important growth rates, if one considers that population growth in these countries was less than 4 percent per year in the period under analysis. Furthermore, it is likely that most of the increase in membership corresponds to "new entrants" in the formal financial system, given the predominantly rural nature of these cooperative organizations discussed above, and the fact that commercial banks are normally reluctant to service small depositors and small borrowers. Thus new members of credit unions are not likely to have switched from another formal financial institution. Instead, the credit union may be their first contact with institutional finance.

Savings deposits in nominal terms grew at an average annual rate of 27 percent in Cameroon, 35 percent in Togo, and almost 50 percent in Rwanda in the period under analysis (see Appendix Tables 2, 3, and 4). On the other hand, the average annual rate of growth of loans outstanding in nominal terms was 34 percent in Cameroon, 45 percent in Togo, and 71 percent in Rwanda. However, different macroeconomic conditions, particularly different rates of inflation, make the cross-country comparison of nominal growth rates misleading. Therefore, the analysis presented below uses growth rates of credit-union savings and loans in real terms. Furthermore, the real growth of the major liabilities and assets of credit unions are contrasted against the real growth of quasi-

Table 1

Growth of Credit Union Membership in Selected Countries, 1976-1986.

Year	Togo		Cameroon		Rwanda	
	Number	Growth rate, %	Number	Growth rate, %	Number	Growth rate, %
1976	2823	-	35040	-	5481	-
1977	2895	2.55	37357	6.6	10124	84.7
1978	3628	25.32	36662	-1.9	15476	52.9
1979	3739	3.06	40524	10.5	10295	-33.5
1980	3822	2.22	41197	1.7	24522	138.2
1981	5375	40.63	44778	8.7	34356	40.1
1982	5915	10.05	47888	6.9	48215	40.3
1983	6565	10.99	50042	4.5	60399	25.3
1984	7899	20.32	53016	5.9	77035	27.5
1985	8894	12.60	58604	10.5	n.a.	-
1986	10335	16.20	n.a	-	n.a.	-
Average		14.39		5.9		46.9

Source: Appendix Tables 2, 3, and 4.

money and private sector credit in the economies in question, to better assess the performance of these cooperative organizations. Quasi-money (i.e., interest-earning liabilities of the banking system) is used as a frame of reference to evaluate the savings performance of credit unions, whereas private sector credit granted by the banking system serves the same purpose for the evaluation of their lending activity.

Growth of Savings

In two of the four cases analyzed here the growth of credit union savings was substantially faster than that of quasi-money. Table 2 indicates that credit union savings grew on average three times as fast as quasi-money in Rwanda, and 1.6 times as fast in Togo. In the other two cases, the growth rate of credit union savings was lower than that of quasi-money, though the differences were not as striking. With the possible exception of Honduras, growth of credit-union savings was more stable than that of quasi-money in all cases. Table 2 shows wide fluctuations in the growth rates of quasi-money in real terms, that are not observed in credit union savings.

With the exception of the "Banques Populaires" of Rwanda, the relative importance of savings in cooperative organizations is in general low as compared to the interest-bearing liabilities of the banking system. Total credit union deposits represent less than one percent of quasi-money in Togo, and about 1.6 percent of quasi-money in Cameroon. However, the high and steady

Table 2

Growth Rates of Credit Union Savings Compared to Growth of Quasi-Money
in the Economy, in Real Terms. Selected Countries, 1977-1986.

Year	Growth Rates in Percent per Year, in Real Terms							
	Togo		Cameroon		Rwanda		Honduras ^a	
	C.U. Savings %	Quasi- Money %	C.U. Savings %	Quasi- Money %	C.U. Savings %	Quasi- Money %	C.U. Savings %	Quasi- Money %
1977	-2.57	14.86	10.5	30.7	95.5	20.9	-	14.1
1978	13.02	44.18	23.3	2.3	53.7	-6.8	11.6	18.6
1979	20.87	-23.36	23.5	8.8	32.4	10.3	-3.3	-8.5
1980	44.60	10.48	18.7	29.0	15.6	5.3	5.8	-11.4
1981	28.50	-0.12	13.5	23.6	28.8	23.5	10.5	4.0
1982	28.51	18.40	7.6	11.3	17.9	-0.5	-0.1	18.2
1983	20.08	17.01	3.0	9.1	19.5	14.7	0.0	10.8
1984	63.98	35.69	11.1	24.2	15.0	7.9	n.a.	n.a.
1985	23.22	35.62	19.3	32.2	n.a.	n.a.	n.a.	n.a.
1986	9.48	5.43	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	24.97	15.82	14.5	19.0	34.8	9.4	4.1	5.3

Sources: Appendix Tables 2, 3, and 4, and Poyo (1985). Growth rates in real terms were computed using each country's Consumer Price Index (CPI) as deflator for the nominal series. CPI figures were obtained from IMF, *International Financial Statistics*.

^a Credit Union figures correspond to the sample of credit unions included in Poyo (1985).

growth rates of credit union savings suggest an increasing importance of these institutions in the monetary system of the economy. As indicated above, growth of savings in credit unions is likely to reflect effective increased monetization of the economy, rather than reallocations of existing financial balances from one institution to another.

The case of Rwanda deserves a careful look, since savings deposits at the "Banques Populaires" represent almost 20 percent of the country's quasi-money, and grow at a rate three times as fast as quasi-money. As shown in Appendix Table 4, the number of deposit accounts exceeds the number of members in these institutions suggesting that, in spite of being organized as cooperatives, membership is not a requirement to have access to the cooperative's deposit services. This is an interesting model of rural financial institutions which will be further documented in future research.

Growth of Loans Outstanding

The performance of credit unions in lending is contrasted against the behavior of credit to the private sector, in real terms, in Table 3. Loans from credit unions grew at average annual rates substantially higher than credit received by the private sector from the banking system. Togo, Cameroon and Rwanda are the most striking cases with average growth rates of loans outstanding in real terms of 33 percent, 32 percent, and 54 percent per year, respectively.

Table 3

Growth Rates of Credit Union Loans Compared to Growth of Private Sector Credit in the Economy, in Real Terms. Selected Countries, 1977-1986.

Year	Growth Rates in Percent per Year, in Real Terms							
	Togo		Cameroon		Rwanda		Honduras ^a	
	C.U. Loans	Private Sector Credit	C.U. Loans	Private Sector Credit	C.U. Loans	Private Sector Credit	C.U. Loans	Private Sector Credit
	%	%	%	%	%	%	%	%
1977	13.87	12.71	73.2	25.1	175.2	64.5	n.a.	12.1
1978	-1.08	14.77	30.1	16.1	92.5	6.7	12.0	4.9
1979	-9.52	4.09	27.9	13.8	33.0	-23.1	-2.9	-3.4
1980	103.27	0.03	17.5	17.5	26.8	36.1	11.2	-14.0
1981	31.27	-19.47	13.0	21.4	47.5	16.8	2.7	-4.1
1982	30.14	-2.61	n.a.	n.a.	26.9	-7.6	-2.2	1.0
1983	79.79	-12.33	n.a.	n.a.	6.2	-2.4	-7.8	5.1
1984	48.71	3.46	n.a.	n.a.	27.0	16.7	n.a.	n.a.
1985	29.22	4.22	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1986	7.54	7.27	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average	33.32	1.21	32.4	11.1	54.4	13.5	2.2	-1.8

Sources: Appendix Tables 2, 3, and 4, and Poyo (1985). Growth rates in real terms were computed using each country's Consumer Price Index (CPI) as deflator for the nominal series. CPI figures were obtained from IMF, International Financial Statistics.

^a Credit Union figures correspond to the sample of credit unions included in Poyo (1985).

The sharp contrast between the growth of cooperative credit and that of institutional credit to the private sector observed in Table 3 is explained in part by the different regulatory environment affecting the two types of institution. Banks and other non-cooperative financial institutions are more likely to be influenced by policies aimed at increasing credit to the public sector than credit unions. Banks are also more prone to invest in government instruments if they perceive their loan demand as riskier than usual, thus reducing private sector credit. On the other hand, credit unions are in most cases unregulated or less regulated by the monetary authority, and the nature of the organization makes the level of risk implicit in their loan demand more stable than that faced by banking institutions.

It is interesting to note that the growth rates of loan balances (Table 3) are higher than those shown by savings deposits (Table 2). This behavior is primarily reflecting increasing ratios of loans to deposits, as the credit union movement becomes more developed^{5/}. Loan to savings ratio are invariably low in the initial stages of the movement, due to the need to build reserves, and the emphasis on deposit mobilization. Then, as the network grows credit becomes a more important activity for the organization.

^{5/} For example, the loan to deposits ratio in Togo credit unions grew from 0.54 to 0.84 between 1976 and 1986 (see Appendix Table 2).

DEVELOPMENT POTENTIAL

The discussion presented in the preceding section suggests that credit unions and similar cooperative financial institutions are a dynamic type of organization, particularly important in the development of rural areas. They represent a promising alternative to the "top-down" development strategies that attempt to introduce finance in rural areas through the establishment of large specialized government lending institutions. Credit unions also provide households with an alternative to non-financial savings through the offering of deposit services in the local community.

An extensive discussion of the factors affecting credit union development is beyond the scope of this paper. However, the major elements can be outlined as follows:

(i) Leadership and promotion.

Identification of good leadership in the community, and appropriate formation on the operating principles of the organization have been shown to be essential for the creation and growth of healthy credit unions.

(ii) Diversification of membership and portfolio management.

One of the basic elements of a credit union is the "common link" ("le lien commun") shared by the members. Three types of links are normally considered: residential (same village or area), occupational (same employer), and professional (same profession). A key consideration in determining the

type of link a cooperative should pursue to establish is the complementarity of cash flows among the membership. The idea is to reduce to manageable levels the magnitude and frequency of seasonal imbalances in the cycle of deposits and loan recovery on the one hand, vis à vis withdrawals and loan disbursements on the other hand. In rural areas, where the occupational (same employer) type of link is rare, it appears that the residential link provides the highest degree of diversification in terms of professions and occupations, i.e., in terms of cash-flow patterns among the membership.

(iii) Central liquidity fund.

A central liquidity fund, usually located at the level of the national federation, may be essential to complement the liquidity management of individual credit unions. This is particularly relevant when the banking system is underdeveloped and poorly represented in rural areas, and therefore rural credit unions cannot effectively use the system for their portfolio management.

(iv) Technical assistance and donor support.

Technical assistance is particularly important for the adoption of appropriate accounting and management techniques. Donor support should be primarily devoted to management training, improvement of accounting systems, development of savings campaigns, and improvement of loan evaluation and recovery practices.

Credit unions can be instrumental for increasing the degree of monetization of rural areas. Not only the creation of new cooperatives, but also the adoption of new financial technologies by the existing organizations can have a major effect on rural savings. Deposit mobilization experiments in credit unions in Honduras and the Dominican Republic have shown promising results^{6/}, that can be emulated or improved in other regions of the world.

^{6/} Poyo (1985) and Poyo (1987).

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APPENDIX

Appendix Table 1

Selected World Credit Union Statistics, 1986

	Credit Unions	Members	Deposits US\$ '000	Loans US\$ '000	Reserves US\$ '000	Assets US\$ '000
ACCOSCA (Africa)	11,307	2,648,717	\$ 448,292	\$ 313,116	\$ 52,345	\$ 501,781
ACCU (Asia)	6,188	1,926,411	1,237,732	1,041,143	46,740	1,337,785
AFCUL (Australia)	372	2,198,547	3,851,000	3,924,000	194,000	4,195,000
CCCS (Canada)	1,446	3,878,600	14,590,000	11,281,000	n.a.	15,531,000
CCCU (Caribbean)	433	571,244	378,852	363,714	18,041	393,142
COLAC (Latin America)	2,082	2,627,161	573,316	503,490	18,097	786,919
CUNA (U.S.A.)	15,447	48,803,064	134,846,906	85,384,066	6,096,000	148,686,156
Free-Standing Leagues	924	906,552	582,707	529,626	62,544	655,317
Total Credit Unions Affiliated with WOCCU	38,199	63,560,295	\$156,508,805	\$103,340,155	\$ 6,487,767	\$172,087,100
Non-Affiliated Organizations	31,697	22,035,712	19,855,781	12,993,386	824,281	22,731,652
Subtotal	69,896	85,596,008	\$176,364,585	\$116,333,541	\$ 7,312,049	\$194,818,752
Related Societies	17,708	28,207,547	359,959,057	261,394,063	16,882,570	454,883,974
World Total	87,604	113,803,555	\$536,323,642	\$377,727,604	\$24,194,618	\$649,702,726

Source: World Council of Credit Unions, Statistical Report, 1986.

Appendix Table 2

Togo. Growth of the Credit Union Movement: An Overview.^a

Year	COOPECSb		Membership		Share Capital		Savings Deposits		Loans Outstanding	
	Number	Growth rate, %	Number	Growth rate, %	FCFA '000 ^c	Growth rate, %	FCFA '000	Growth rate, %	FCFA '000	Growth rate, %
1976	77	-	2823	-	n.a.	-	24978.1	-	13513.1	-
1977	85	10.39	2895	2.55	n.a.	-	29797.2	19.29	18839.9	39.42
1978	92	8.24	3628	25.32	n.a.	-	33839.7	13.57	18726.3	-0.60
1979	89	-3.26	3739	3.06	n.a.	-	43964.3	29.92	18213.2	-2.74
1980	82	-7.87	3822	2.22	n.a.	-	71431.5	62.48	41598.0	128.39
1981	97	18.29	5375	40.63	n.a.	-	109873.4	53.82	65365.5	57.14
1982	96	-1.03	5915	10.05	n.a.	-	156881.3	42.78	94521.8	44.61
1983	74	-22.92	6565	10.99	11459.0	-	206092.3	31.37	185910.6	96.69
1984	79	6.76	7899	20.32	14764.7	28.85	325878.7	58.12	266591.0	43.40
1985	84	6.33	8894	12.60	17000.6	15.14	394405.6	21.03	338340.9	26.91
1986	93	10.71	10335	16.20	18316.9	7.74	452787.1	14.80	381531.9	12.77
Annual Average		2.56		14.39		17.24		34.72		44.60

Source: Based on figures reported in FUCEC-Togo. "Development of the Togo Credit Union Association, Progress Report No. 14", March 1987.

^a Figures as of December of each year.

^b "Cooperatives d'Epargne et de Crédit".

^c Francs CFA, 1 US\$ = 387 FCFA (March 1987).

Appendix Table 3

Cameroon. Growth of the Credit Union Movement: An Overview.^a

Year	Caisses Populaires		Membership		Share Savings		Loans Outstanding	
	Number	Growth rate, %	Number	Growth rate, %	FCFA '000 ^b	Growth rate, %	FCFA '000	Growth rate, %
1976	93	-	35040	-	777432	-	318762	-
1977	95	2.2	37357	6.6	985941	26.8	633667	32.3
1978	99	4.2	36662	-1.9	1366080	38.6	926329	46.2
1979	106	7.1	40524	10.5	1799418	31.7	1263435	36.4
1980	106	0.0	41197	1.7	2338517	30.0	1626657	28.7
1981	109	2.8	44778	8.7	2939424	25.7	2035159	25.1
1982	n.a.	-	47888	6.9	3583740	21.9	n.a.	-
1983	n.a.	-	50042	4.5	4307510	20.2	n.a.	-
1984	n.a.	-	53016	5.9	5328310	23.7	n.a.	-
1985	n.a.	-	58604	10.5	6471590	21.5	n.a.	-
1986	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Annual Average		3.3		5.9		26.7		33.7

Sources: DeLancey (1983) for the period 1976-1981, and Gadway (1986) for 1982-1985.

^a Figures as of December of each year.

^b 1 US\$ = 387 FCFA (March 1987)

Appendix Table 4

Rwanda. Growth of the Credit Union Movement: An Overview.^a

Year	"Banques Populaires"		Membership		Share Capital		Deposit Accounts		Savings Deposits		Loans Outstanding			
	Number	Growth rate, %	Number	Growth rate, %	Million FRW ^b	Growth rate, %	Number	Growth rate, %	Million FRW	Growth rate, %	Number	Growth rate, %	Million FRW	Growth rate, %
1976	35	-	5481	-	1.4	-	5478	-	60.4	-	207	-	12.3	-
1977	50	42.9	10124	84.7	2.5	78.6	13375	144.2	134.3	122.4	276	33.3	38.5	213.0
1978	50	0.0	15476	52.9	3.6	44.0	22484	68.1	233.7	74.0	663	140.2	83.9	117.9
1979	57	14.0	10295	-33.5	4.8	33.3	31331	39.3	357.9	53.1	1310	97.6	129.0	53.8
1980	57	0.0	24522	138.2	5.9	22.9	39576	26.3	444.0	24.1	2422	84.9	175.5	36.0
1981	61	7.0	34356	40.1	9.1	54.2	47225	19.3	609.0	37.2	3180	31.3	275.7	57.1
1982	63	3.3	48215	40.3	13.1	44.0	57171	21.1	807.7	32.6	4606	44.8	393.5	42.7
1983	64	1.6	60399	25.3	17.2	31.3	66652	16.6	1028.9	27.4	5047	9.6	445.6	13.2
1984	72	12.5	77035	27.5	22.6	31.4	84124	26.2	1247.3	21.2	6663	32.0	596.5	33.9
1985	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1986	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Average		10.2		46.9		42.5		45.1		49.0		59.2		71.0

Source: Bureau d'Orientation de Banques Populaires du Rwanda. Rapport Annuel, 1984.

^a Figures as of December of each year.^b Rwanda francs, 1 US\$ = 103 FRW (March 1987)